

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 3589 – SB 3693

April 13, 2010

SUMMARY OF AMENDMENT (015975): Reduces the interest rate on bonds sold by the Tennessee State School Bond Authority as part of the Build America Bond (BAB) and Qualified School Construction Bond (QSCB) programs.

FISCAL IMPACT OF ORIGINAL BILL:

MINIMAL

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Expenditures - \$26,250/Per One Million in Sold Bonds

Decrease Local Expenditures - \$58,500/Per One Million in Sold Bonds

Assumptions applied to amendment:

- Bonds are sold as Build America Bonds at a taxable interest rate.
- For BABs sold on behalf of public higher education programs, the TSSBA assumes that without the reduction in interest rate, the BABs would be sold at 7.5 percent. With the amendment, the BABs can be sold at a reduction in interest rate of approximately 35 percent, which will reduce the interest rate to 4.875. According to the TSSBA, this will reduce state expenditures to the debt service paid by public higher education institutions by approximately \$26,250 for each million dollars in bonds that are sold for this purpose.
- QSCBs are sold by the TSSBA on behalf of local education agencies (LEAs). The federal tax credit on the date that the bonds are sold will determine the exact decrease in local expenditures. Currently the TSSBA assumes that the federal tax credit will be approximately 5.85 percent and that the bonds are sold at an interest rate of 7.5 percent. The interest rate after the federal subsidy would be 1.65 percent. At this rate, the TSSBA assumes that local expenditures will decrease by approximately \$58,500 for each million dollars in bonds that are sold for this purpose.

- The exact amount of state and local savings will be determined by the number of bonds sold, the interest rate at the time of the sale, the federal tax subsidy at the time of the QSCB sale, and the number of construction projects that apply and are determined to be eligible.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large initial "J" and a distinct "W".

James W. White, Executive Director

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